

MARRIAGE PENALTY RELIEF
Testimony before the Senate Committee on Finance
Senator Kay Bailey Hutchison
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Thank you, Mr.Chairman, Ranking Member Baucus and members of the committee for inviting me to speak at this hearing on easing the family tax burden. I am pleased to talk about ending one of the most egregious, anti-family aspects of our tax code -- the marriage penalty. As a Senator, relieving the marriage penalty has been one of my highest priorities.

Right now, married couples all over America -- 21 million or so -- are being penalized by our tax code for no apparent reason other than because they are married. The Treasury Department estimates that 48% of married couples pay a marriage penalty. According to a study by the Congressional Budget Office, the average penalty paid is roughly \$1,400.

Let me give you an example: Heather Diederich and Willie Simmons live in Tyler, Texas, and are engaged to be married on May 26. Both work at Brookshires, a local grocery store chain. Heather is the single mother of a 3-year-old boy and makes \$20,000 a year. Willie makes \$19,000 a year. When they get married, they will be hit with a marriage penalty of \$1,600.

Other than love, what incentive do these two young people have to get married? Indeed, they are faced with an unbelievable disincentive. It would save them \$1,600 a year if they simply lived together. \$1600 is equal to half a year's rent.

It doesn't have to be this way. According to the Congressional Budget Office's latest projections, we will achieve a \$5.6 trillion surplus over the next 10 years. This surplus is affording us an unprecedented opportunity to address inequities in our tax code, including the marriage penalty. I am very pleased that the President made marriage penalty relief a part of his tax plan. Clearly, he recognizes that the marriage penalty is a real problem faced by millions of American families and that correcting it must be a top priority.

So as the Committee examines this issue and works to craft a marriage penalty relief proposal, I would like to offer the following suggestions.

First, marriage penalty relief should not add another layer of complication for taxpayers. Our tax code is already enormously complex. Every year, America's taxpayers are forced to spend billions of dollars in tax preparation fees and millions of hours filling out complicated tax forms. Marriage penalty relief should not contribute to this already significant burden.

Second, marriage penalty relief should ensure that all married couples are treated equally.

We should strive to bring relief to as many couples as possible, and we should not create a tax system in which we discriminate against certain couples solely on the basis of the division of income. Under current law, couples earning the same amount of combined income pay the same amount in taxes, regardless of whether one spouse chooses to work within the home. We need to make sure this remains the case.

On this point, some have argued that single-earner couples should pay more in tax than two-earner couples with the same combined income. This is because single-earner couples currently benefit from what they call a marriage "bonus."

For the most part, so-called marriage "bonuses" arise in single-earner families. For example, let's say a man who earns \$40,000 a year is engaged to a single mom who earns no income. Once they get married, he will pay less income tax than he did as a single person and, therefore, would be receiving a marriage "bonus."

But let's keep in mind that his \$40,000 income will now have to support three people instead of just one. His expenses have increased, not decreased. By getting married, he is hardly getting a "bonus" - at least in the monetary sense of the word.

Would it be fair for this couple to pay more in tax than a similar family in which both spouses work outside the home and earn the same total income? The answer is no.

For the last four years, I have studied a number of mechanisms for correcting the marriage penalty. In the final analysis, I believe that the simplest and fairest way to address this issue is to do two things:

- Increase the standard deduction for married filing jointly so that it is twice that of an individual; and
- Widen the 15% tax bracket.

By taking this approach, we will not be adding a single ounce of complexity for taxpayers, and we won't be choosing which married couples should get relief. In effect, everyone who is married will benefit, and no couple will be discriminated against based on the division of income.

Of course, this approach does not address the marriage penalties found in the upper income brackets. However, expanding the 15% bracket and increasing the standard deduction for joint filers is a reasonable and responsible first step -- one that will fit within the \$1.6 trillion the President has set aside in his budget for tax relief.

Based on the Joint Tax Committee's estimates of the marriage

penalty relief bill that Congress approved last year, doubling the standard deduction and expanding the 15% bracket would cost \$183 billion over 10 years. According to the Office of Management and Budget, the President's proposal -- which would reinstate the 10% second-earner deduction -- would cost \$112 billion. These two revenue estimates are not that far apart, and I believe we can close the gap between them by phasing in the 15% bracket expansion at a slightly slower pace than we did in last year's bill, thereby achieving savings over the 10-year period.

I would support expanding the other brackets if surpluses continue to grow in the future. Doubling the standard deduction and widening the 15% bracket now, however, would be a significant down payment.

Again, Mr. Chairman, I would like to emphasize the importance of enacting meaningful marriage penalty relief this year. I believe our failure to do so, especially at a time when the federal government is receiving record income tax surpluses, would send the wrong message to couples like Heather and Willie in Tyler. Let's give them marriage penalty relief this year, and let's do so in a way that is simple and fair.

Thank you, Mr. Chairman.